Transparency #1
Perfect and Monopolistic Competition

Market Structure	Number of Firms	Product	Control Over Price	Non-Price Competition
Perfect Competition	Many	Identical	None	No Need
Monopolistic Competition	Many	Slightly Different	Some, But Very Little	Use of Advertising

Examples:

Wheat – Perfect Competition

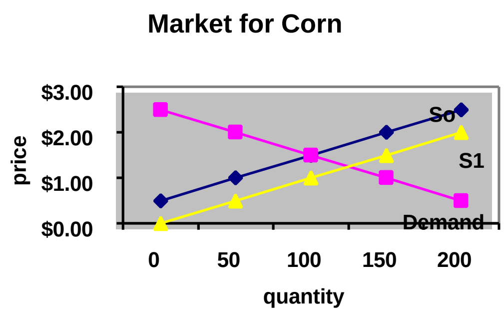
- **Producers of wheat sell nearly identical goods.**
- **There are many producers of wheat. There are no barriers to prevent new firms from entering the market.**
- **Because they sell nearly identical goods and there are many producers, sellers have no control over price. If the buyer doesn't like the price of one firm, they simply go to another supplier.**
- **Demand is perfectly elastic, which means if the firm raises the price they lose all customers because there are many substitutes.**

Clothing – Monopolistic Competition

- **Producers of clothing sell goods that are similar, but each brand name of clothing may be different in fit, color, fabric, buttons/zippers, etc.**
- **There are many producers of clothing. There are no barriers to prevent new firms from entering the market.**
- **Because they sell goods that are different in appearance and quality, sellers have some control over price, but because there are many producers they have little control.**
- **Demand is very elastic, because there are many substitute choices available to the consumer.**

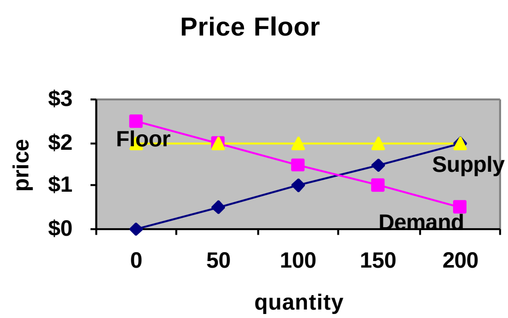
Transparency #2
Aid Programs for Farmers

Problem: When farmers are successful, supply of farm goods increases and the price they receive for their crop falls below cost.



It costs $1.50 to harvest a bushel of corn. Line S0 represents the original market conditions; S1 reflects a bumper crop that increases supply. The new market price decreases to $1.00 because of the increased supply. Thus, farmers must sell at a loss.

Solution One: Price Floor



Solution Two: Subsidies